VZCZCXRO6496
PP RUEHLMC
DE RUEHAR #0811/01 1061111
ZNR UUUUU ZZH
P 161111Z APR 07
FM AMEMBASSY ACCRA
TO RUEHC/SECSTATE WASHDC PRIORITY 4184
INFO RUEHLMC/MILLENNIUM CHALLENGE CORP

UNCLAS SECTION 01 OF 02 ACCRA 000811

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TREASURY FOR D PETERS STATE AF/W AF/EPS: THASTINGS EB/IFB.USAID/AFR/W

SENSITIVE
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E.O. 12958: N/A
TAGS: ECON EFIN GH
SUBJECT: IMF MISSION: UPBEAT ASSESSMENT

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¶1. (SBU) Summary. IMF Resrep (protect) provided local embassy representatives an upbeat assessment of the IMF Mission that concluded on March 28. Follow-on discussions with GoG officials echoed the positive readout. After a somewhat disappointing Mission in February when fiscal data were worse than expected and Article IV discussions were not completed, the IMF was pleased with the extensive work the GoG had done to put together a realistic fiscal consolidation package to reverse fiscal slippage. The key step that the GoG indicated it would take is to move to full cost recovery for utilities before the end of 2007. During the course of the Mission, there were also preliminary discussions about a Policy Support Instrument (PSI) that the IMF and GoG have both privately indicated they expect to continue on the margins of the IMF/World Bank Spring Meetings. End Summary.

Fiscal Consolidation Measures

¶2. (SBU) The IMF Mission in February had been slated to complete Article IV consultations. However, the GoG asked the IMF to return in March in order to give them time to finalize all the relevant economic data and to consider how to address the quite serious fiscal deficit, which is estimated at between 7% and 7.5% of GDP for 2006, against a projected 4.5%. IMF Resrep said that the Fund was impressed with the extensive work the GoG had done to prepare a strong, realistic set of fiscal measures. If no policy measures are taken, the fiscal deficit for 2007 is estimated to be about 8%. Under the plan set out by GoG, it will be about 6.5%, with a further 1% reduction in 2008. While still somewhat high, the IMF believes the package is realistic and will send a good message to markets that the GoG is staying on track. The estimates take into account some upcoming one-off expenditures including hosting an AU Summit, the African Cup of Nations Soccer tournament in 2008, as well as the political realities related to expenditure choices that come with a pending election in 2008 (e.g., it will be difficult to make strong progress on rightsizing the public sector before the election).

¶3. (SBU) The main fiscal risks faced by Ghana are financing/subsidies to utilities, money-losing state-owned enterprises, and the public sector wage bill. The headline measure that the GoG will take to address these is moving to full cost recovery of utilities. Currently the government is absorbing the increased costs, not passing them to consumers. As of May 1, 2007, all commercial customers will pay full cost. Residential customers will pay full cost as of August
¶1. The government is also seeking to accelerate privatization of state-owned enterprises, most immediately Ghana Telecom, which the government is counting on to bring at least $250 million, according to a Deputy Governor of the

Bank of Ghana (BoG). The plans to address the public sector wage bill are less well developed. The GoG is committed to remaining within the expenditure targets set in the 2007 budget but that level (which amounts to 9.6% of GDP) is not sustainable. Legislation to establish a Fair Wages Commission, the first step towards rationalizing pay and rightsizing, has been passed but not signed in to law. Our BoG contact said the progress to date on Public Sector reform appeared mostly cosmetic to him.

¶4. (SBU) As a means to ensure long term commitment to sound macro management, the GoG is considering the idea of a Fiscal Responsibility Act. The Act could set out basic rules on things such as government borrowing and expenditure that would be binding on all governments. The Deputy Governor at BoG believes a Fiscal Responsibility Act would be another means of sending a positive signal to markets that Ghana's good performance is here to stay.

Going to International Capital Markets

¶5. (SBU) The macro framework that Ghana has set out includes non-concessional borrowing from international capital markets. While the details and amount have not been finalized, we expect the GoG to offer a five year, $500 million sovereign bond later this year, with $250 million in priority project expenditures slated for 2007. Almost all of the $250 million will be invested in the energy sector, with a small amount devoted to roads, per Deputy FinMin Osei. To ensure wise expenditure of resources and development of projects that are attractive to the private sector, the GoG is forming a Value for Money unit to analyze proposed projects. Dr. Osei said that the GoG was very aware of how

unforgiving markets could be and the GoG was going to be very careful about making sure the bond offering was well prepared. He said the earliest he expected to go forward would be June but that September was perhaps more realistic. Note: Parliamentary approval is required before the GoG can move forward. End note.

PSI?

¶6. (SBU) The IMF Resrep said that the GoG and IMF had held discussions, not/not negotiations on a possible PSI. The IMF Resrep said he expected that consultations on a PSI would continue on the margins of the Spring Bank/Fund meetings. This information was confirmed by GoG officials who further indicated that a key issue was timing, i.e. before or after going to capital markets.

Comment

¶7. (SBU) The theme of wanting to "do it right" when Ghana goes to capital markets is pervasive among GoG contacts. They are clearly focused on keeping Ghana's economic performance on track and the importance of sending the right signals to the market to keep costs down and to avoid accumulating unsustainable debt. Privatization of the remaining SOEs has been and remains a real challenge. The privatization of Westel, the second state-owned telecom company, seemed to have been "done" but now we are hearing that it has not been finalized and there may be concerns from top officials in the government that the price is not high enough. Neither the Deputy Governor at BoG or Deputy Minister of Finance Osei could confirm if the deal would go through. Ghana Telecom (GT) promises to be equally challenging. Appointment of a transactions advisor has been pending for several months. A choice has been made but not announced because one of the losing bidders is challenging the selection. In addition, the winning advisor's stated timeline is 15-18 months, well past the end of 2007. When asked if privatization of GT would really occur this year,

Deputy FinMin Osei replied "It must." In addition, the dark cloud of energy shortages looms over the bright outlook. The planned tariff increase to full cost recovery is welcome and noteworthy but must be accompanied by investment in the sector, improved collection rates, and increased productivity to dampen potential inflationary effects of the higher energy costs.
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